

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA

C O N F I D E N T I A L STATE 282396

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E.O. 11652: GDS

TAGS: EGEN, RP

SUBJECT:PHILIPPINE INVESTMENT CLIMATE AND RECENT GOP ACTIONS

REF: MANILA 14925

1. THERE HAS BEEN A SERIES OF INDICATIONS THIS FALL THAT PHILIPPINE ECONOMIC NATIONALISM AND TRADITION OF LIMITED RELIABILITY IN COMMERCIAL MATTERS NOT ONLY REMAIN ALIVE BUT MAY BE GROWING. WE HAVE SEEN SUBSTANTIAL MOVES AGAINST PAN AMERICAN DESPITE AUGUST 10 AGREEMENT, SPECIOUSLY JUSTIFIED EMBARGO ON SUGAR THAT CONTRIBUTED TO INSTABILITY IN INTERNATIONAL SUGAR MARKETS, AND PERFORMANCE ON COTTON CONTRACTS THAT HAS BEEN LESS THAN TOTALLY REASSURING SO FAR. MEASURES HAVE ALSO BEEN DISCUSSED EXTENSIVELY THAT COULD SERIOUSLY AFFECT THE INSURANCE INDUSTRY AND NATURAL RESOURCE EXPLOITATION COMPANIES. LATEST DEVELOPMENT IS REPORT OF MOBIL OIL DIFFICULTY IN EXERCISING OPTION ON BATAAN REFINING SHARES. ALL OF THIS OCCURS AGAINST THE BACKGROUND OF CONTINUED UNCERTAINTY ON LAND TITLES, RECENTLY
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COMPOUNDED BY JUSTICE DEPARTMENT REJECTION OF SEVERAL

ADJUSTMENT PROPOSALS, AND OF SIMILAR UNCERTAINTY ON RETAIL
TRADE AND OTHER LAUREL-LANGLEY TRANSITIONAL ISSUES.

2. WE RECOGNIZE THAT UNSETTLED INTERNATIONAL CONDITIONS
AND DELAY OF U.S. TRADE BILL MAY ACCENTUATE PRESIDENT
MARCOS' NATURAL INCLINATION TO KEEP ALL HIS OPTIONS OPEN,
AND THAT HE WOULD IN ANY CASE BE ANXIOUS TO RETAIN MAXIMUM

FLEXIBILITY IN ANTICIPATION OF OUR FORTHCOMING BILATERAL
NEGOTIATIONS. WE ALSO RECOGNIZE THAT SOME OF THE DEVELOP-
MENTS CITED ARE SO FAR MORE THREAT THAN REALITY, ALTHOUGH
THE EFFECTS ON PAN AM, THE SUGAR INDUSTRY, AND THE COTTON
TRADE HAVE BEEN MEASURABLE. MOREOVER, UNCERTAINTY
TEMPERED WITH HIGH PROFIT MARGINS HAS LONG BEEN CHARACTER-
ISTIC OF U.S. BUSINESS ACTIVITIES IN THE PHILIPPINES, AND
MANY FIRMS ARE PROBABLY ACCUSTOMED TO IT.

3. NONETHELESS, WHILE NO ONE OF THESE PROBLEMS IS IN IT-
SELF UNMANAGEABLE, TAKEN TOGETHER THE TENDENCY THEY SUGGEST
HAS BECOME DISTURBING, AND THE RECURRING NEED TO EXPLAIN
GOP ACTIONS INEVITABLY RAISES QUESTIONS ABOUT THE ACTUAL
TREND OF GOP POLICY. THE GOP IS ITSELF CONTRIBUTING IN A
LIMITED WAY TO THE INSTABILITY OF INTERNATIONAL MARKETS IT
DOUBTLESS DEPLORES. MORE IMPORTANTLY FOR OUR IMMEDIATE
CONCERNS, IT IS REVIVING DOUBTS ABOUT THE AUTHENTICITY OF
ITS PROFFESSED COMMITMENT TO A FAVORABLE CLIMATE FOR FOREIGN
INVESTMENT.

4. ONE POSSIBILITY IS THAT THESE ACTIONS, OR SOME OF THEM,
MAY BE INTENDED AS NEGOTIATION TACTICS, DESIGNED TO BUILD
UP PRESSURES ON THE USG TO PAY HEAVILY FOR INVESTMENT PRO-
TECTION. IF THAT IS THE INTENT, THE GOP SHOULD REALIZE
THAT THE USG AND MOST INVESTORS STILL REGARD INDICATIONS OF
A COUNTRY'S ATTITUDE AND INTENT AS MORE SIGNIFICANT IN
INVESTMENT DECISIONS THAN FORMAL UNDERTAKINGS; HARASSMENT
AS A TACTIC COULD WELL BACKFIRE, BOTH BY DISCOURAGING
COMMITMENT OF FUNDS AND BY MAKING ANY NEW TREATY SEEM OF
DUBIOUS VALUE WHATEVER ITS CONTENT. IT MAY BE ON THE OTHER
HAND THAT WHAT WE ARE ENCOUNTERING IS A MANIFESTATION OF
DRIFT OR "BACKSLIDING" WHICH RELEASES LONG-STANDING
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TENDENCIES TOWARD ECONOMIC XENOPHOBIA AND/OR THE FAST BUCK.
PROBABLY THERE IS SOME ELEMENT OF ALL THESE FACTORS, BUT
NONE PROVIDES A REASSURING PRELUDE TO NEGOTIATIONS.

5. THIS COMMENTARY IS NOT INTENDED AS AN INDICATION THAT
OUR ASSESSMENT OF THE GOP HAS CHANGED, BUT TO CALL ATTEN-
TION TO THE CONCERNS THAT ARE DEVELOPING AS A RESULT OF GOP
ACTIONS OF THE PAST SEVERAL MONTHS. WE WOULD APPRECIATE

YOUR COMMENTS, INCLUDING CONSIDERATION OF THE DESIRABILITY
OF RELAYING TO MARCOS OR OTHER GOP OFFICIALS OUR CONCERNS,
IN SUCH FORM AS YOU FEEL APPROPRIATE. REPLY WOULD BE MORE
USEFUL IF DISTRIBUTION NOT RESTRICTED TO STATE, AND THERE-
FORE SUGGEST EMBASSY NOT REFER TO THIS MESSAGE IN RESPONSE.
YOUR A-416 JUST RECEIVED TOUCHES ON SOME OF THESE POINTS
BUT MORE DETAILED CONSIDERATION WOULD BE HELPFUL.

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